

**Gratiot-Isabella Regional  
Education Service District**

**Ithaca, Michigan**

***Financial Statements  
With Supplemental Information  
June 30, 2008***



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Gratiot-Isabella Regional Education Service District  
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June 30, 2008

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## Independent Auditor's Report

Gratiot-Isabella Regional Education Service District  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella Regional Education Service District (the District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants  
October 10, 2008

## **Management's Discussion and Analysis**



Gratiot-Isabella Regional Education Service District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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The management's discussion and analysis section of Gratiot-Isabella Regional Education Service District's (GIRESD) annual financial report provides the District's evaluation of its own financial performance during the year ended June 30, 2008. Management discussion and analysis should be read in conjunction with the District's financial statements immediately following this section.

**Using this Annual Report**

Gratiot-Isabella Regional Education Service District's annual report consists of a series of financial statements and notes related to those statements. Financial statements are organized so the reader can understand GIRESD's financial operations as a whole. *District-wide Financial Statements* provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Fund financial statements explain how services were financed in the short-term, and explain how remaining funds can be used for future operations. *Fund Financial Statements* examine the District's operations in more detail than the District-wide financial statements.

The District's annual financial report includes the following financial statements and related information:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
  - District-wide Financial Statements
  - Fund Financial Statements
  - Notes to the Basic Financial Statements
- Budgetary Information
  - General Fund
  - Major Special Revenue Funds
- Other Supplemental Information

**Reporting the School District as a Whole – District-wide Financial Statements**

The statement of net assets, and the statement of activities, which appear first in the financial statements, report information on the financial condition of the District as a result of this year's activities. These statements record all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are recognized regardless of when cash is received or paid.

The statement of net assets and the statement of activities report the governmental activities for the District, which encompass all the District's services, including instruction, supporting services, and community services. Property taxes, State Aid, and state and federal grants finance most of these activities.

The statement of net assets and the statement of activities report the District's net assets as the difference between assets and liabilities. Net assets are a measurement of the District's financial health. Over time, increases or decreases in the District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The District's primary goal is to provide services to students, local Districts and constituents. As a result, one must consider many non-financial factors, such as the quality of services provided and the safety of the schools, to assess the overall health of GIRESD.

### Reporting the School District's Most Significant Funds – Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain taxes, grants and other money. The governmental funds of the District use the following accounting approach:

Governmental Funds – All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reported in a reconciliation.

### Reporting the District's Fiduciary Responsibilities - The District as Trustee

The District is the trustee, or fiduciary, for funds of various groups. All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the District's other financial statements because these assets cannot be used to finance District operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The School District as a Whole

Recall that the statement of net assets provides the perspective of GIRESD. Table 1 provides a summary of the District's net assets as of June 30, 2008 and 2007:

**Table 1**

	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current and other assets	\$10,341,841	\$10,468,413
Capital assets, net of depreciation	2,320,030	2,316,417
Total Assets	12,661,871	12,784,830
<b>Liabilities</b>		
Current liabilities	1,801,392	3,455,419
Non-current liabilities	205,126	285,651
Total liabilities	2,006,518	3,741,070
<b>Net assets</b>		
Invested in capital assets, net of related debt	2,019,448	1,934,335
Restricted	93	93
Unrestricted	8,635,812	7,109,332
Total net assets	\$10,655,353	\$9,043,760

Gratiot-Isabella Regional Education Service District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

The net assets of the District on June 30, 2008 and 2007 were \$10,655,353 and \$9,043,760, respectively. A portion of the District's current year net assets (19.7%) reflects investment in capital assets, net of related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from money available from general operations.

The results of this year's operations for GIRESD as a whole are reported in the statement of activities, which reflects the changes in net assets for fiscal years 2008 and 2007. Table 2 below summarizes the revenues and expenses for the governmental funds at the fund financial statement level:

<b>Table 2</b>	<b>Governmental Funds - 2008</b>	<b>%</b>	<b>Governmental Funds - 2007</b>	<b>%</b>
<b>Revenue</b>				
Local Sources	\$11,794,038	40	\$9,835,264	34
State Sources	6,799,544	23	6,490,383	22
Federal Sources	10,675,086	36	11,519,353	40
Other Financing Sources	416,381	1	1,137,644	4
Total Revenues	\$29,685,049	100	\$28,982,644	100
<b>Function/Program Expenditures</b>				
Instruction	\$6,420,973	23	\$5,955,523	21
Pupil Services	3,878,168	14	3,830,101	14
Instructional Staff	1,811,622	6	1,943,983	7
Educational Media Services	56,428	-	50,839	-
General Administration	606,186	2	613,972	2
School Administration	730,972	3	683,553	2
Business	635,845	2	661,203	2
Operation & Maintenance	664,725	2	712,358	3
Transportation	890,396	3	829,459	3
Central	600,560	2	682,038	2
Planning, research, & development	-	-	47,316	-
Community Services	6,492,639	23	6,987,991	25
Debt Service	158,400	1	161,158	1
Other	5,281,505	19	4,927,305	18
Total Expenditures	\$28,228,419	100	\$28,086,799	100
Excess/(Deficiency) of Revenues Over Expenditures	\$1,456,630		\$895,846	
Total Other Financing Sources/(Uses)	-		-	
<b>Net Change in Fund Balance</b>	<b>\$1,456,630</b>		<b>\$895,845</b>	

Gratiot-Isabella Regional Education Service District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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### **The School District's Funds**

GIRESD funds are used to control and manage money for particular purposes. Reviewing funds maintained by GIRESD helps determine whether the District is being accountable for the resources it receives and can provide more insight into the District's overall financial health.

As the District completed the 2007-08 year, governmental funds reported a combined fund balance of \$8,635,848, which is an increase of \$1,456,630 from the prior year. Fund balances increased in the General Fund by \$224,000, and increased in the Special Education Fund by \$886,000. Overall, actual revenues and expenses were within 95.4% and 96.8%, respectively, of budgeted amounts.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The Uniform Budget Act of the State of Michigan requires that the GIRESD Board of Education adopt an original budget for the upcoming fiscal year by July 1<sup>st</sup>. As a matter of practice, the District amends its budget during the fiscal year. These revisions are made in order to deal with changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

The following changes occurred in the GIRESD financial operations when comparing actual financial performance to the final budget projections for 2007-08. Actual revenues were lower than final budget projections in the General Fund (\$735, or .04%); and Cooperative Education Fund (\$55,000, or 2.1%). Actual revenues were higher than final budget projections in the Special Education Fund (\$112,000, or .6%); and Funded Projects Fund by \$1,297,000, or 24.0%). Unanticipated revenues from investment income and the Medicaid program increased Special Education Fund revenues higher than expected. Due to fiscal practices at the State of Michigan, grant funds in several federal programs were awarded (and budgeted) in 2006-07. Payment of the grants, however, did not occur until the 2007-08 fiscal year. As a result, 2007-08 actual revenues in the Funded Projects Fund were significantly higher than the 2007-08 budget projected. This occurrence is not expected to repeat in future years, as the actual payment of grant funds is expected to match more closely with the timing of the awarded funds.

Actual expenditures were lower than final budget projections in the General Fund by \$71,000 (4.4%); Special Education Fund by \$135,000 (.8%); and Cooperative Education Fund by \$141,000 (5.0%). Funded Projects Fund expenditures exceeded final budget projections by \$1,234,000 (23.6%). As payment of awarded federal grant funds was delayed until 2007-08 (see above), expenditure activity was likewise budgeted in 2006-07 but did not occur until 2007-08, explaining the majority of variations between actual and budgeted expenditures.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### ***Capital Assets***

At June 30, 2008 and 2007, GIRESD had \$2,320,030 and \$2,316,417, respectively, (net of depreciation), invested in a broad range of capital assets, including land, buildings and improvements, and equipment.



Gratiot-Isabella Regional Education Service District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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*Debt*

At June 30, 2008 and 2007, GIRESD had \$299,295 and \$449,106, respectively, in long-term debt. The debt consisted of the following:

<b>Debt</b>	<b>2008</b>	<b>2007</b>
Compensated absences	\$80,668	\$67,024
Bonds – 1997	-	150,000
MMNET installment notes	79,828	93,283
Bonds - Durant	138,799	138,799
Total	\$299,295	\$449,106

#### ECONOMIC FACTORS AND NEXT YEAR BUDGETS

GIRESD relies on three main sources of revenue: property taxes, state funding and federal grants. Despite overall declines in real estate values, property taxes remain a relatively stable source of revenues, rising at a lower rate than in recent history, but nevertheless increasing near the rate of inflation. Federal grants in the area of special education have been declining slowly over the previous several years, but remained relatively stable during 2007-08. Revenues in the Workforce Investment Act (a federal program in the Funded Projects Fund) declined by \$721,000 (9.7%) in 2007-08, however the programs continue to receive strong support at the federal level. Instructional grants have become more difficult to obtain due to overall funding challenges at both the federal and state levels. State funding is scheduled to increase during 2008-09, however reductions are a possibility due to continued budget challenges at the State of Michigan.

#### REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the District's finances and to show the District's accountability for the funding it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Gratiot-Isabella RESD  
Business Office  
1131 E. Center Street, P.O. Box 310  
Ithaca, MI 48847-0310

**District-Wide  
Financial Statements**



Gratiot-Isabella Regional Education Service District  
Statement of Net Assets  
June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
<b>Assets</b>		
Current assets		
Cash and investments	\$ 8,256,454	\$ 7,363,684
Accounts receivable, net	227,603	158,684
Prepaid expenses	5,000	82,810
Due from other governmental units	1,852,784	2,863,235
Total current assets	10,341,841	10,468,413
Noncurrent assets		
Land	81,955	81,955
Capital assets less accumulated depreciation	2,238,075	2,234,462
Total noncurrent assets	2,320,030	2,316,417
Total assets	12,661,871	12,784,830
<b>Liabilities</b>		
Current liabilities		
Accounts payable	359,347	2,120,476
Salaries payable	857,982	814,442
Accrued interest	1,230	2,769
Deferred revenues	167,002	-
Accrued expenses	321,662	354,277
Current portion of long-term obligations	94,169	163,455
Total current liabilities	1,801,392	3,455,419
Noncurrent liabilities		
Bonds payable	58,859	138,799
MMNET loan payable	65,599	79,828
Compensated absences	80,668	67,024
Total non-current liabilities	205,126	285,651
Total liabilities	2,006,518	3,741,070
<b>Net assets</b>		
Invested in capital assets, net of related debt	2,019,448	1,934,335
Restricted for:		
Debt service	93	93
Unrestricted	8,635,812	7,109,332
Total net assets	\$ 10,655,353	\$ 9,043,760

See accompanying notes to financial statements.

Gratiot-Isabella Regional Education Service District  
Statement of Activities  
For the Year Ended June 30, 2008, with Comparative Data

Functions / Programs	Expenses	Program Revenues		Governmental Activities	
		Charges for Services	Operating Grants and Contributions	Net Revenues (Expense) and Changes in Net Assets	
				2008	2007
<b>Governmental activities:</b>					
Instruction	\$ 6,420,973	\$ 919,506	\$ 9,236,141	\$ 3,734,674	\$ 4,627,877
Support services	9,874,902	219,125	7,289,043	(2,366,734)	(1,444,857)
Community service	6,492,639	-	-	(6,492,639)	(6,987,991)
Interest and fees on long-term debt	11,970	-	-	(11,970)	(14,132)
Other	5,155,984	-	-	(5,155,984)	(4,914,584)
Depreciation - unallocated	116,988	-	-	(116,988)	(101,884)
Total school district	<u>\$ 28,073,456</u>	<u>\$ 1,138,631</u>	<u>\$ 16,525,184</u>	<u>(10,409,641)</u>	<u>(8,835,571)</u>
<b>General revenues:</b>					
Property taxes				10,370,967	8,335,924
State aid not restricted to specific purposes				949,446	1,108,023
Unrestricted interest and investment earnings				277,039	288,388
Restricted interest and investment earnings				7,401	567
Other				416,381	268,445
Total general revenues				<u>12,021,234</u>	<u>10,001,347</u>
<b>Change in net assets</b>				1,611,593	1,165,776
<b>Net assets - beginning</b>				<u>9,043,760</u>	<u>7,877,984</u>
<b>Net assets - ending</b>				<u>\$ 10,655,353</u>	<u>\$ 9,043,760</u>

See accompanying notes to financial statements.

## **Fund Financial Statements**



Gratiot-Isabella Regional Education Service District  
Balance Sheet - Governmental Funds  
June 30, 2008, with Comparative Data

	Major Funds						Total Governmental Funds	
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	2008	2007
<b>Assets</b>								
Cash and investments	\$ 523,052	\$ 6,229,331	\$ 1,219,214	\$ 26,862	\$ 257,902	\$ 93	\$ 8,256,454	\$ 7,363,684
Accounts receivable	52,584	9,817	162,757	2,445	-	-	227,603	158,684
Prepaid expenses	5,000	-	-	-	-	-	5,000	82,810
Due from other funds	458,089	-	81,652	-	200,000	-	739,741	175,278
Due from other governmental units	168,536	997,886	34,348	652,014	-	-	1,852,784	2,863,234
Total assets	<u>\$ 1,207,261</u>	<u>\$ 7,237,034</u>	<u>\$ 1,497,971</u>	<u>\$ 681,321</u>	<u>\$ 457,902</u>	<u>\$ 93</u>	<u>\$ 11,081,582</u>	<u>\$ 10,643,690</u>
<b>Liabilities</b>								
Accounts payable	\$ 8,393	\$ 185,017	\$ 90,137	\$ 75,800	\$ -	\$ -	\$ 359,347	\$ 2,120,476
Salaries payable	7,160	827,473	20,064	3,285	-	-	857,982	814,442
Due to other funds	-	206,851	-	532,890	-	-	739,741	175,278
Deferred revenues	-	-	167,002	-	-	-	167,002	-
Accrued expenses	500	284,850	5,457	30,855	-	-	321,662	354,277
Total liabilities	<u>16,053</u>	<u>1,504,191</u>	<u>282,660</u>	<u>642,830</u>	<u>-</u>	<u>-</u>	<u>2,445,734</u>	<u>3,464,473</u>
<b>Fund balance</b>								
Reserved for:								
Debt service	-	-	-	-	-	93	93	93
Prepays	5,000	-	-	-	-	-	5,000	82,810
Potential future unemployment	147,800	-	-	-	-	-	147,800	-
Unreserved	1,038,408	5,732,843	1,215,311	38,491	457,902	-	8,482,955	7,096,315
Total fund balance	<u>1,191,208</u>	<u>5,732,843</u>	<u>1,215,311</u>	<u>38,491</u>	<u>457,902</u>	<u>93</u>	<u>8,635,848</u>	<u>7,179,218</u>
Total liabilities and fund balance	<u>\$ 1,207,261</u>	<u>\$ 7,237,034</u>	<u>\$ 1,497,971</u>	<u>\$ 681,321</u>	<u>\$ 457,902</u>	<u>\$ 93</u>	<u>\$ 11,081,582</u>	<u>\$ 10,643,690</u>

See accompanying notes to financial statements.

Gratiot-Isabella Regional Education Service District  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to the Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended June 30, 2008

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Total fund balance - governmental funds	\$	8,635,848
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: Cost of capital assets	\$ 3,611,277	
Deduct: Accumulated depreciation	<u>(1,291,247)</u>	
		2,320,030

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Deduct: Durant bond issue, school improvement	(153,028)	
Deduct: MMNET loans payable	(65,599)	
Deduct: Compensated absences payable	(80,668)	
Deduct: Accrued interest on long-term liabilities	<u>(1,230)</u>	
		<u>(300,525)</u>

Net assets of governmental activities	\$	<u><u>10,655,353</u></u>
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Gratiot-Isabella Regional Education Service District  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2008, with Comparative Data

	Major Funds						Total Governmental Funds	
	General	Special Education	Cooperative Education	Funded Projects	Capital Projects	Debt Service	2008	2007
<b>Revenues</b>								
Local sources	\$ 668,543	\$ 9,599,560	\$ 1,515,603	\$ 2,931	\$ 7,401	\$ -	\$ 11,794,038	\$ 9,835,264
State sources	949,446	5,740,826	109,272	-	-	-	6,799,544	6,490,383
Federal sources	-	3,495,315	487,169	6,692,602	-	-	10,675,086	11,519,353
Other financing sources	20,136	-	396,245	-	-	-	416,381	1,137,644
<b>Total revenues</b>	<b>1,638,125</b>	<b>18,835,701</b>	<b>2,508,289</b>	<b>6,695,533</b>	<b>7,401</b>	<b>-</b>	<b>29,685,049</b>	<b>28,982,644</b>
<b>Expenditures</b>								
Instruction								
Added needs	-	5,861,258	-	-	-	-	5,861,258	5,535,945
Adult / continuing education	-	-	559,715	-	-	-	559,715	419,578
<b>Total instruction</b>	<b>-</b>	<b>5,861,258</b>	<b>559,715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,420,973</b>	<b>5,955,523</b>
Support services								
Pupil	63,164	3,815,004	-	-	-	-	3,878,168	3,830,101
Instructional staff	346,966	65,351	1,399,305	-	-	-	1,811,622	1,943,983
Educational and media services	-	-	56,428	-	-	-	56,428	50,839
General administration	337,159	269,027	-	-	-	-	606,186	613,972
School administration	-	730,972	-	-	-	-	730,972	683,553
Business	475,528	160,317	-	-	-	-	635,845	661,203
Operation and maintenance	143,466	203,601	317,658	-	-	-	664,725	712,358
Pupil transportation	-	890,396	-	-	-	-	890,396	829,459
Central	189,036	96,075	315,449	-	-	-	600,560	682,038
Planning, research & development	-	-	-	-	-	-	-	47,316
<b>Total support services</b>	<b>1,555,319</b>	<b>6,230,743</b>	<b>2,088,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,874,902</b>	<b>10,054,822</b>
Community services	-	428	38,786	6,453,425	-	-	6,492,639	6,987,991
Debt service	-	-	-	-	-	158,400	158,400	161,158
Other	-	5,281,505	-	-	-	-	5,281,505	4,927,305
<b>Total expenditures</b>	<b>1,555,319</b>	<b>17,373,934</b>	<b>2,687,341</b>	<b>6,453,425</b>	<b>-</b>	<b>158,400</b>	<b>28,228,419</b>	<b>28,086,799</b>
<b>Change in fund balance</b>	<b>82,806</b>	<b>1,461,767</b>	<b>(179,052)</b>	<b>242,108</b>	<b>7,401</b>	<b>(158,400)</b>	<b>1,456,630</b>	<b>895,846</b>
<b>Other financing sources (uses)</b>								
Operating transfers in	752,283	180,000	468,046	-	200,000	158,400	1,758,729	1,924,198
Operating transfers (out)	(610,900)	(756,105)	(152,522)	(239,202)	-	-	(1,758,729)	(1,924,198)
<b>Net change in fund balance</b>	<b>224,189</b>	<b>885,662</b>	<b>136,472</b>	<b>2,906</b>	<b>207,401</b>	<b>-</b>	<b>1,456,630</b>	<b>895,845</b>
<b>Fund balance - beginning</b>	<b>967,019</b>	<b>4,847,181</b>	<b>1,078,839</b>	<b>35,585</b>	<b>250,501</b>	<b>93</b>	<b>7,179,218</b>	<b>6,283,373</b>
<b>Fund balance - ending</b>	<b>\$ 1,191,208</b>	<b>\$ 5,732,843</b>	<b>\$ 1,215,311</b>	<b>\$ 38,491</b>	<b>\$ 457,902</b>	<b>\$ 93</b>	<b>\$ 8,635,848</b>	<b>\$ 7,179,218</b>

See accompanying notes to financial statements.



Gratiot-Isabella Regional Education Service District  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 1,456,630
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	120,602
Deduct: Depreciation expense	(116,988)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: Increase in accrual for compensated absences	(13,644)
Add: Decrease in accrued interest on long term debt	1,539
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: 1997 bonds payable	150,000
Add: MMNET loans payable	13,454
Change in net assets of governmental activities	<u><u>\$ 1,611,593</u></u>

Gratiot-Isabella Regional Education Service District  
Statement of Net Assets - Fiduciary Funds  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash	\$ 61,167	\$ 53,007
Accounts receivable	4,225	744
	<u>65,392</u>	<u>53,752</u>
Total assets	<u>\$ 65,392</u>	<u>\$ 53,752</u>
<b>Net assets</b>		
Unrestricted	<u>\$ 65,392</u>	<u>\$ 53,752</u>
Total net assets	<u>\$ 65,392</u>	<u>\$ 53,752</u>

## **Notes to the Financial Statements**



## **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Gratiot-Isabella Regional Education Service District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

### **Reporting Entity**

The District is governed by a Board of Education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

### **District-wide and Fund Financial Statements**

The District-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide Financial Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

- The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The debt service fund is used to record tax, interest, other revenue for payment, principal and other expenditures on the 1997 bond issue.
- The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds. These resources are derived from contributions from the general fund.
- The Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District has three special revenue funds; Cooperative Education Fund, Funded Projects Fund, and Special Education Fund.

Additionally, the District reports the following fund types:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Fiduciary funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.

The fiduciary fund is accounted for using the cash basis of accounting, which does not have an effect materially different from reporting them on the accrual basis. This fund is used to account for assets that the governmental unit holds for others in an agency capacity. The District has one fiduciary fund.

### **Comparative Data / Reclassifications**

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations.

Certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

### **Budgetary Data**

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

### **Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan

### **Property Tax Revenue**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and interest and penalties may be assessed by the collecting entity.

The taxable value for the District amounted to \$2,108,982,207, which includes \$798,796,760 attributable to non-homesteads. The District levied 0.2640 mills for general operations which totaled \$562,193. The District also levied 4.0345 mills for the purpose of special education services which totaled \$8,579,185.

### **State Aid Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school Districts based on information supplied by the Districts. The foundation allowance was based on pupil membership counts taken in September and February of the fiscal year.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

### **Inventory**

Inventories, if any, are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The District does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Buildings and Improvements	20 - 50
Equipment	5 - 20
MMNet System	20
Technology Equipment	7
Vehicles	7 - 10

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### Compensated Absences

Vacation days are accumulated at variable rates for administrative employees and other full time employees. The District's policy allows employees to accumulate vacation days earned and carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. The vacation pay liability at June 30, 2008 is \$80,668. The vacation pay liability is reflected in the District-wide financial statements.

Sick days are accumulated at variable rates for all employees, depending on position and time of service. Amounts accumulated are paid to the employee and recognized as an expense when sick time is actually taken. Upon termination of employment all sick days are forfeited. Since accumulated sick leave does not vest with the employee, no amount is recognized as a liability in these financial statements.

### Deferred Revenue

Deferred revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

### **Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

### **Net Assets and Fund Balances**

Restricted net assets shown in the District-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the District-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

#### Fund Balances - Reserves and Designations

Fund balances in the governmental fund financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental fund financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

#### Net Assets – Restrictions

Net assets in the District-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

### **Unemployment Compensation**

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. The District has reserved fund balance for possible future claims.



## **Note 2 - Stewardship, Compliance and Accountability**

### **Excess of Expenditures over Appropriations**

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison report as unfavorable variances.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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**Note 3 - Deposits and Investments**

At June 30, 2008, the carrying amount of the District's cash, deposits and investments was as follows:

<b>Cash, Deposits, And Investments</b>	<b>Carrying Amount</b>
Petty Cash	\$ 1,550
Checking, Savings, & Money Market Accounts	847,934
State Investment Pool – MILAF	7,406,970
Total	\$8,256,454

**Deposits with Financial Institutions**

At year-end, the carrying amount of the District's deposits was \$847,934 and the bank balance was \$1,367,573. Of the bank balance, \$113,053 was covered by federal depository insurance and \$1,254,520 was uninsured and uncollateralized. Deposits that exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

The District voluntarily invests certain excess funds in external pooled investment funds which includes money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school Districts. MILAF is not regulated nor is it registered with the SEC. As of June 30, 2008, MILAF reports the fair value of the District's investments is the same as the value of the pool shares.

**Investments**

As of June 30, 2008, the District had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment pool-MICMS	\$ 3,469,144	0.0027	AAAm	46.8%
MILAF External Investment pool-MIMAX	3,937,826	0.0027	AAAm	53.2%
Total fair value	\$ 7,406,970			100.0%
Portfolio weighted average maturity		0.0027		
1 day maturity equals 0.0027, one year equals 1.00				

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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Interest rate risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk - State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments - For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk - The District is not authorized to invest in investments which have this type of risk.

#### **Note 4 - Accounts Receivable**

Accounts receivable as of June 30<sup>th</sup> of each year is made up of various amounts due to Gratiot-Isabella Regional Educational Service District but not received until after year-end.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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**Note 5 - Due From Other Governmental Units**

Due from other governmental units as of June 30<sup>th</sup>, consist of the following:

Due From	Amount
<b>General Fund</b>	
State of Michigan - State Aid	\$ 168,536
<b>Special Education Fund</b>	
State of Michigan - State Aid	985,480
State of Michigan - Early On	6,730
State of Michigan - Transition Services	5,676
<b>Cooperative Education Fund</b>	
State of Michigan - State Aid	16,538
State of Michigan – SDFS	1,252
Federal Safety Grant	16,558
<b>Funded Projects Fund</b>	
EightCap – WIA, NAFTA, & Wagner Peyser, Trade	652,014
Total Due from Other Governmental Units	\$ 1,852,784

**Note 6 - Receivables and Payables**

In the fund financial statements the amounts of interfund receivables and payables at June 30, 2008 are as follows:

Fund	Due From	Due To
General	\$ 458,089	\$ -
Special Education	-	206,851
Cooperative Education	81,652	-
Funded Projects	-	532,890
Capital	200,000	-
Totals	\$ 739,741	\$ 739,741

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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**Note 7 - Prepaid Expenses**

Prepaid expenses as of June 30<sup>th</sup> represent expenditures paid prior to year-end that are allocable to future periods for dental/vision insurance.

**Note 8 - Capital Assets**

A summary of changes in the District's capital assets follows:

<b>Capital Assets</b>	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2008</b>
Land	\$ 81,955	\$ -	-	\$ 81,955
Buildings and Improvements	2,902,103	10,125	-	2,912,228
Equipment	322,223	32,676	-	354,899
MMNET System	184,395	-	-	184,395
Technology Equipment	-	77,800	-	77,800
Total Capital Assets	3,490,676	120,601	-	3,611,277
<b>Accumulated Depreciation</b>		-		
Buildings and Improvements	(896,712)	(70,549)	-	(967,261)
Equipment	(194,569)	(31,818)	-	(226,387)
MMNET System	(82,978)	(9,220)	-	(92,198)
Technology Equipment	-	(5,401)	-	(5,401)
Total Accumulated Depreciation	(1,174,259)	(116,988)	-	(1,291,247)
<b>Net Capital Assets</b>	<b>\$ 2,316,417</b>	<b>\$ 3,612</b>	-	<b>\$ 2,320,030</b>

Depreciation for the year ended June 30, 2008 totaled \$116,988. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Note 9 - Salaries Payable**

Salaries payable represent the remaining balance on teacher contracts to be paid during the summer and other wages earned but not paid as of June 30<sup>th</sup>.

**Note 10 - Accrued Interest**

Accrued interest represents interest accrued on outstanding debt from the date of the last payment to the end of the fiscal year as follows:

<b>Debt</b>	<b>Amount</b>
MMNET Loans	\$ 1,230

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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**Note 11 - Accrued Expenses**

Accrued expenses as of June 30<sup>th</sup> are as follows:

Accrued Expense	Amount
Retirement	\$ 142,434
FICA	65,169
Health Insurance and Other	83,826
Other	30,233
Total	\$ 321,662

**Note 12 - Deferred Revenue**

Deferred revenue represents cash received in advance of the period in which it was earned. Revenues in excess of expenditures on special purpose grants are recorded as deferred revenues until spent or refunded to the grantor. Gratiot-Isabella RESD incurred the following deferred revenue as of the end of the current fiscal year:

Deferred Revenue	Amount
Welding and C.N.A. Training	\$ 101,712
State of Michigan – Medicaid	65,290
Total	\$167,002

**Note 13 - Long-term Debt**

**General Obligation Bonds**

In May of 1997, the District issued bonds totaling \$920,000 for the purpose of defraying a part of the cost of acquiring and remodeling major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. The bonds are fully registered as to principal and interest; are in denominations of \$5,000 or integral multiples thereof, and bear interest at a rate not exceeding 5.4% per annum. The bonds are payable on May 1, 2002, and annually thereafter on the first day of May.

See details of bonded debt schedule included in the supplemental financial information section of this report.

**1998 School Improvement Bonds**

As a result of the Durant Settlement, the District is expected to receive approximately \$470,134. One-half of the settlement (\$235,067) will be paid to the District in ten equal payments beginning in November 1998. These payments are recorded as revenue in the General fund when received.

The District elected to receive the balance of the settlement by participating in the bonding program. Consequently, the District borrowed \$235,067 from the School Loan Bond Fund and will make the annual principal and interest payments from the annual appropriation from the State of Michigan. The State of Michigan is the only revenue source for making the annual debt service payments on the bonds. However, if the legislature fails to appropriate the funds, the District is under no obligation for payment.

Restrictions on the use of these funds are stated in the Revised School Code Part 17, Sections 1351 and include the following: school buses, electronic instructional material and software, textbooks, technology, infrastructure or infrastructure improvement, school security, training for technology, or to reduce or eliminate certain voter-approved debt. For additional information see the bond payment schedule included in the back of this report.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

**MMNET**

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). See additional disclosures regarding MMNET in these notes. As a member MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Therefore, the District entered into four separate installment purchase agreements for the purchase of the necessary equipment and services. Each purchase agreement has a stated interest rate of 5.68% and calls for equal, semi-annual payments.

The following is a summary of the installment purchase agreements:

<b>Vendor</b>	<b>Description</b>	<b>Cost</b>	<b>Annual Payment</b>
ITS Tech., LLC	Data Electronics	\$ 19,325	\$ 1,967
I.T.I., Inc.	Voice Electronics	33,250	3,384
FLI Comm. Corp.	Video Electronics	57,200	5,822
Fiber Link, Inc.	Fiber Optical Filaments	74,620	7,391
Total		\$ 184,395	\$ 18,564

The annual requirements to pay principal and interest on the above obligations outstanding at June 30, 2008, including interest of \$51,129, are as follows:

<b>Year Ending June 30,</b>	<b>Annual Payments</b>
2009	\$ 129,474
2010	35,071
2011	35,071
2012	35,071
2013	35,070

Changes in general long-term debt during the year ended June 30, 2008 are as follows:

	<b>Comp. Absences</b>	<b>MMNET Property</b>	<b>1997 Bonds</b>	<b>School Improvement Bonds (Durant)</b>	<b>Totals</b>
Balance 7/1/07	\$ 67,024	\$ 93,283	\$ 150,000	\$ 138,799	\$ 449,106
Additions	13,644	-	-	-	13,644
Deletions	-	(13,455)	(150,000)	-	(163,455)
Balance 6/30/08	80,668	79,828	-	138,799	299,295
Less: Current Portion	-	(14,229)	-	(79,940)	(94,169)
Total due after one year	\$ 80,668	\$ 65,599	\$ -	\$ 58,859	\$ 205,126

In addition to the \$163,455 of principal payments paid during the June 30, 2008 fiscal year, \$13,509 of interest was paid.

Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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**Note 14 – Transfers between funds**

During the year the following transfers were made between funds:

<b>The general fund made the following transfers to -</b>	<b>Total</b>
Debt service fund for payment of principal and interest on long-term debt.	\$158,400
Capital projects fund for future capital expenditures.	100,000
Special education fund for general expenditures.	180,000
Cooperative education fund for general expenditures	172,500
<b>The cooperative education fund made the following transfers to -</b>	
Capital projects fund for future capital expenditures.	100,000
General fund for general expenditures.	12,045
Various other funds for general expenditures.	40,477
<b>The funded projects fund made the following transfers to -</b>	
General fund for general expenditures.	239,202
<b>The special education fund made the following transfers to -</b>	
Cooperative education fund for general expenditures.	255,068
Special education fund for general expenditures.	501,037
Total transfers	\$1,758,729

**Note 15 – Fund Balance**

Reserved fund balance represents that portion of fund balance that has been legally segregated for a specific purpose.

General Fund - Fund balance is reserved for the amount of prepaid expenses and potential future unemployment claims as of June 30<sup>th</sup>.

Debt Service Fund - Fund balance is reserved for future payments on general long-term debt.

**Note 15 - Employee Retirement System**

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple employer, cost sharing, defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental, and vision. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS.

A copy of this report can be requested by calling (517) 322-6000 or by writing to:

Michigan Public School Employees' Retirement System  
P.O. Box 30171  
Lansing, MI 48909-7671



Gratiot-Isabella Regional Education Service District  
Notes to the Financial Statements  
June 30, 2008

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Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72% of payroll. The contribution requirements of plan members and the District are established, and may be amended by, the MPSERS Board of Trustees.

The District's contributions to MPSERS for the years ended June 30, 2008, 2007, and 2006 were \$1,457,071, \$1,435,875, and \$1,256,958, respectively, which is equal to the required contribution for each year. The District is not responsible for the payment of retirement benefits; it is the responsibility of the State of Michigan.

Other Post Employment Benefits

Under the MPSERS' Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**Note 16 - Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims for the commercial insurance, if any, have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

**Note 17 - Joint Venture**

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services. Gratiot-Isabella RESD is the administrative agent for MMNET. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter local Consortium Agreement among the following entities: Beal City Public Schools, Breckenridge Community Schools, Clinton County RESA, Central Montcalm Public Schools, DeWitt Public Schools, Fulton Schools, Gratiot-Isabella RESD, Ovid-Elsie Area Schools, and St. Johns Public Schools. The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participants services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Requests for additional financial information relating to MMNET should be addressed to:

Gratiot-Isabella RESD  
Business Office  
1131 E. Center Street, P.O. Box 310  
Ithaca, MI 48847-0310

## **Required Supplemental Information**

### Budgetary Comparison Schedules



Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 609,000	\$ 671,100	\$ 668,543	\$ (2,557)
State sources	928,300	947,260	949,446	2,186
Other sources	-	20,500	20,136	(364)
Total revenues	1,537,300	1,638,860	1,638,125	(735)
<b>Expenditures</b>				
Support services				
Pupil	55,968	64,465	63,164	1,301
Instructional staff	367,857	345,585	346,966	(1,381)
General administration	344,853	347,048	337,159	9,889
Business	529,422	524,630	475,528	49,102
Operation and maintenance	153,474	146,260	143,466	2,794
Central	197,605	198,784	189,036	9,748
Total expenditures	1,649,179	1,626,772	1,555,319	71,453
<b>Change in fund balance</b>	(111,879)	12,088	82,806	70,718
<b>Other financing sources (uses)</b>				
Operating transfers in	619,769	712,740	752,283	39,543
Operating transfers (out)	(510,500)	(610,600)	(610,900)	(300)
<b>Net change in fund balance</b>	(2,610)	114,228	224,189	109,961
<b>Fund balance - beginning</b>	1,011,282	967,019	967,019	-
<b>Fund balance - ending</b>	<u>\$ 1,008,672</u>	<u>\$ 1,081,247</u>	<u>\$ 1,191,208</u>	<u>\$ 109,961</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Special Education Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 8,771,000	\$ 9,425,000	\$ 9,599,560	\$ 174,560
State sources	4,714,000	5,799,000	5,740,826	(58,174)
Federal sources	3,518,163	3,499,546	3,495,315	(4,231)
Other sources	-	-	-	-
Total revenues	17,003,163	18,723,546	18,835,701	112,155
<b>Expenditures</b>				
Instruction				
Added needs	5,944,958	5,905,990	5,861,258	44,732
Total instruction	5,944,958	5,905,990	5,861,258	44,732
Support services				
Pupil	3,788,298	3,844,400	3,815,004	29,396
Instructional staff	49,077	46,447	65,351	(18,904)
General administration	310,436	285,672	269,027	16,645
School administration	766,606	749,483	730,972	18,511
Business	187,600	190,000	160,317	29,683
Operation and maintenance	258,542	237,292	203,601	33,691
Pupil transportation	866,750	869,750	890,396	(20,646)
Central	96,433	94,484	96,075	(1,591)
Total support services	6,323,742	6,317,528	6,230,743	86,785
Community services	800	800	428	372
Payments to other districts/subgrantees	4,836,134	5,284,791	5,281,504	3,287
Total expenditures	17,105,634	17,509,109	17,373,933	135,176
<b>Change in fund balance</b>	(102,471)	1,214,437	1,461,768	(23,021)
<b>Other financing sources (uses)</b>				
Operating transfers in	-	-	180,000	180,000
Operating transfers (out)	(547,032)	(753,555)	(756,105)	(2,550)
<b>Net change in fund balance</b>	(649,503)	460,882	885,663	424,781
<b>Fund balance - beginning</b>	4,449,914	4,847,181	4,847,181	-
<b>Fund balance - ending</b>	<u>\$ 3,800,411</u>	<u>\$ 5,308,063</u>	<u>\$ 5,732,844</u>	<u>\$ 424,781</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Cooperative Education Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ 1,114,635	\$ 1,474,426	\$ 1,515,603	\$ 41,177
State sources	102,811	116,699	109,272	(7,427)
Federal sources	342,664	572,664	487,169	(85,495)
Other sources	377,370	399,110	396,245	(2,865)
Total revenues	1,937,480	2,562,899	2,508,289	(54,610)
<b>Expenditures</b>				
Instruction				
Adult / continuing education	468,102	569,778	559,715	10,063
Total instruction	468,102	569,778	559,715	10,063
Support services				
Instructional staff	1,007,779	1,448,031	1,399,305	48,726
Educational and media services	49,011	57,893	56,428	1,465
Operation and maintenance	291,676	376,563	317,658	58,905
Central	276,189	326,038	315,449	10,589
Planning, research, and development	8,709	9,075	-	9,075
Community recreation	34,700	41,344	38,786	2,558
Total support services	1,668,064	2,258,944	2,127,626	131,318
Total expenditures	2,136,166	2,828,722	2,687,341	141,381
<b>Change in fund balance</b>	(198,686)	(265,823)	(179,052)	86,771
<b>Other financing sources (uses)</b>				
Operating transfers in	199,730	460,500	468,046	7,546
Operating transfers (out)	(38,841)	(162,619)	(152,522)	10,097
<b>Net change in fund balance</b>	(37,797)	32,058	136,472	104,414
<b>Fund balance - beginning</b>	963,818	1,078,839	1,078,839	-
<b>Fund balance - ending</b>	<u>\$ 926,021</u>	<u>\$ 1,110,897</u>	<u>\$ 1,215,311</u>	<u>\$ 104,414</u>

Gratiot-Isabella Regional Education Service District  
 Budgetary Comparison Schedule for the Funded Projects Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
<b>Revenues</b>				
Local sources	\$ -	\$ -	\$ 2,931	\$ 2,931
Federal sources	4,790,917	5,398,689	6,692,602	1,293,913
Total revenues	4,790,917	5,398,689	6,695,533	1,296,844
<b>Expenditures</b>				
Community services	4,790,917	5,219,475	6,453,425	(1,233,950)
Total expenditures	4,790,917	5,219,475	6,453,425	(1,233,950)
<b>Change in fund balance</b>	-	179,214	242,108	62,894
<b>Other financing sources (uses)</b>				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	(179,214)	(239,202)	(59,988)
<b>Net change in fund balance</b>	-	-	2,906	2,906
<b>Fund balance - beginning</b>	41,130	35,585	35,585	-
<b>Fund balance - ending</b>	\$ 41,130	\$ 35,585	\$ 38,491	\$ 2,906

## Other Supplemental Information





Gratiot-Isabella Regional Education Service District  
General Fund  
Statement of Revenues  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Local sources</b>		
Property taxes	\$ 562,195	\$ 512,650
Interest	42,014	30,698
Other local revenues	64,334	67,113
Total local sources	668,543	610,461
<b>State sources</b>		
Grants	949,446	1,108,023
Total state sources	949,446	1,108,023
<b>Other financing sources</b>		
Other sources	20,136	9,714
Transfers from other funds	752,283	963,606
Total other financing sources	772,419	973,320
Total general fund revenues and other financing sources	\$ 2,390,408	\$ 2,691,804

Gratiot-Isabella Regional Education Service District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services</b>		
Pupil		
Attendance		
Salaries	\$ 39,997	\$ 38,868
Employee benefits	16,169	12,454
Purchased services	6,998	5,860
	<u>63,164</u>	<u>57,182</u>
Total pupil		
Instructional staff		
Audiovisual		
Salaries	134,655	120,593
Employee benefits	57,137	51,185
Purchased services	15,218	17,036
Supplies and materials	548	616
Other	6,592	362
	<u>214,150</u>	<u>189,793</u>
Total audiovisual		
Curriculum coordinator		
Salaries	15,582	97,671
Employee benefits	3,835	46,887
Purchased services	113,399	184,712
Supplies and materials	-	209
Other	-	450
	<u>132,816</u>	<u>329,929</u>
Total curriculum coordinator		
Total instructional staff	<u>346,966</u>	<u>519,722</u>
General administration		
Board of education		
Employee benefits	130	126
Purchased services	44,139	27,757
	<u>44,269</u>	<u>27,883</u>
Total board of education		
Executive administration		
Salaries	170,183	200,636
Employee benefits	73,849	76,851
Purchased services	35,636	36,815
Supplies and materials	1,893	3,254
Other	11,329	11,284
	<u>292,890</u>	<u>328,840</u>
Total executive administration		
Total general administration	<u>337,159</u>	<u>356,723</u>

Gratiot-Isabella Regional Education Service District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Business		
Fiscal services		
Salaries	\$ 237,525	\$ 231,732
Employee benefits	110,776	114,440
Purchased services	5,181	4,665
Total fiscal services	353,482	350,837
Internal services		
Salaries	42,888	38,315
Employee benefits	21,743	21,824
Purchased services	16,182	17,993
Supplies and materials	28,329	26,353
Other	-	1,557
Capital outlay	3,119	6,130
Total internal services	112,261	112,172
Other business services		
Purchased services	8,367	10,025
Other	1,418	2,773
Total other business services	9,785	12,798
Total business	475,528	475,807
Operations and maintenance		
Salaries	40,328	39,859
Employee benefits	22,250	23,907
Purchased services	73,374	82,524
Supplies and materials	7,514	5,795
Total operations and maintenance	143,466	152,085
Central		
Central support services		
Salaries	45,108	61,254
Employee benefits	20,301	29,890
Purchased services	5,763	5,920
Total central support services	71,172	97,064

Gratiot-Isabella Regional Education Service District  
General Fund  
Statement of Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Planning, research and development and evaluation		
Salaries	\$ 11,390	\$ 11,112
Employee benefits	6,273	6,096
Purchased services	100,201	84,150
	<u>117,864</u>	<u>101,358</u>
Total planning, research and development and evaluation	<u>117,864</u>	<u>101,358</u>
Total central	<u>189,036</u>	<u>198,422</u>
Total support services	<u>1,555,319</u>	<u>1,759,941</u>
Outgoing transfers and other transactions	<u>610,900</u>	<u>763,657</u>
Total expenditures	<u><u>\$ 2,166,219</u></u>	<u><u>\$ 2,523,597</u></u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Revenues  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Local sources</b>		
Current tax levy	\$ 8,579,186	\$ 7,823,274
Delinquent taxes	-	-
Interest on deposits	235,025	254,778
Miscellaneous	785,349	663,778
Total local sources	<u>9,599,560</u>	<u>8,741,829</u>
<b>State sources</b>		
Restricted		
Membership - section 52	1,588,269	1,491,236
Special education - section 51	1,103,797	795,563
Special education - section 53	1,309,646	1,337,412
Special education - section 56	1,704,256	1,594,270
School for deaf/blind - section 54	2,484	-
MI Rehabilitation Services-Community Based Education	-	10,500
Benefits - fica & retirement	32,374	32,374
Total state sources	<u>5,740,826</u>	<u>5,261,355</u>
<b>Federal sources</b>		
Restricted		
P.L. 94-142 flowthrough	3,090,242	3,104,374
P.L. 94-142 preschool incentive	137,213	137,192
P.L. 94-142 state initiated projects	50,000	51,300
Transition service	55,769	32,544
Strong Families/Safe Children	-	-
Infant / toddler formula	162,091	163,434
Total federal sources	<u>3,495,315</u>	<u>3,488,844</u>
<b>Other financing sources</b>		
Transfers from other funds	<u>180,000</u>	<u>180,000</u>
Total revenues	<u><u>\$ 19,015,701</u></u>	<u><u>\$ 17,672,028</u></u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Instruction</b>		
Added needs		
Special education		
Salaries	\$ 3,236,863	\$ 2,970,388
Employee benefits	1,806,560	1,813,275
Purchased services	132,785	156,902
Supplies and materials	48,110	54,479
Payments to other schools for services	615,077	510,191
Capital outlay	21,863	30,711
	<u>5,861,258</u>	<u>5,535,945</u>
Total special education	<u>5,861,258</u>	<u>5,535,945</u>
Total added needs	<u>5,861,258</u>	<u>5,535,945</u>
 <b>Support services</b>		
Pupil services		
Health services		
Salaries	632,120	658,887
Employee benefits	264,180	320,344
Purchased services	118,538	111,024
Supplies and materials	10,129	10,414
	<u>1,024,967</u>	<u>1,100,669</u>
Total health services	<u>1,024,967</u>	<u>1,100,669</u>
Psychological services		
Salaries	251,781	246,485
Employee benefits	111,136	132,218
Purchased services	8,019	8,156
Payments to other schools for services	6,800	27,112
Supplies and materials	2,831	5,593
	<u>380,567</u>	<u>419,565</u>
Total psychological services	<u>380,567</u>	<u>419,565</u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Pupil services		
Speech pathology services		
Salaries	\$ 826,024	\$ 728,794
Employee benefits	365,790	342,040
Purchased services	67,273	72,844
Payments to other schools for services	55,834	18,312
Supplies and materials	13,152	9,854
	<u>1,328,073</u>	<u>1,171,845</u>
Total speech pathology services		
	<u>1,328,073</u>	<u>1,171,845</u>
Social worker services		
Salaries	264,954	265,369
Employee benefits	126,492	135,057
Purchased services	15,552	13,080
Payments to other schools for services	2,843	-
Supplies and materials	15,147	1,770
	<u>424,988</u>	<u>415,277</u>
Total social worker services		
	<u>424,988</u>	<u>415,277</u>
Teacher consultant services		
Salaries	171,246	106,486
Employee benefits	84,191	58,424
Purchased services	41,198	59,058
Supplies and materials	1,444	1,583
	<u>298,079</u>	<u>225,551</u>
Total teacher consultant services		
	<u>298,079</u>	<u>225,551</u>
Other pupil services		
Salaries	174,108	230,942
Employee benefits	76,922	110,668
Purchased services	86,698	82,797
Supplies and materials	13,516	15,604
Other	7,086	-
	<u>358,330</u>	<u>440,012</u>
Total other pupil services		
	<u>358,330</u>	<u>440,012</u>
Total pupil services		
	<u>3,815,004</u>	<u>3,772,919</u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Instructional staff		
Improvement of instruction		
Salaries	\$ 14,280	\$ 13,595
Employee benefits	9,208	3,743
Purchased services	36,983	17,114
Supplies and materials	4,880	7,285
	<u>65,351</u>	<u>41,737</u>
Total improvement of instruction	<u>65,351</u>	<u>41,737</u>
Total instructional staff	<u>65,351</u>	<u>41,737</u>
General administration		
Board of education		
Purchased services	33,769	33,546
	<u>33,769</u>	<u>33,546</u>
Total board of education	<u>33,769</u>	<u>33,546</u>
Executive administration		
Salaries	137,876	134,575
Employee benefits	89,036	81,032
Purchased services	6,170	5,715
Supplies and materials	2,051	1,737
Other	125	642
	<u>235,258</u>	<u>223,702</u>
Total executive administration	<u>235,258</u>	<u>223,702</u>
Total general administration	<u>269,027</u>	<u>257,249</u>



Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
School administration		
Supervision and direction of instructional staff		
Salaries	\$ 475,610	\$ 426,075
Employee benefits	236,243	242,738
Purchased services	19,119	14,370
Other	-	369
	<u>730,972</u>	<u>683,553</u>
Total school administration		
	<u>730,972</u>	<u>683,553</u>
Business services		
Internal services		
Purchased services	11,906	13,680
Supplies and materials	26,811	43,076
	<u>38,717</u>	<u>56,756</u>
Total internal services		
	<u>38,717</u>	<u>56,756</u>
Other business services		
Purchased services	100,596	88,396
Other	21,004	40,244
	<u>121,600</u>	<u>128,640</u>
Total other business services		
	<u>121,600</u>	<u>128,640</u>
Total business services		
	<u>160,317</u>	<u>185,396</u>
Operations and maintenance		
Salaries	38,409	33,182
Employee benefits	20,027	16,448
Purchased services	131,320	134,231
Supplies and materials	9,599	10,665
Capital outlay	4,246	6,413
	<u>203,601</u>	<u>200,940</u>
Total operations and maintenance		
	<u>203,601</u>	<u>200,940</u>
Pupil transportation		
Contracted services	890,396	829,459
	<u>890,396</u>	<u>829,459</u>

Gratiot-Isabella Regional Education Service District  
Special Education Fund  
Statement of Expenditures  
For the Year Ended June 30, 2008 and 2007

	2008	2007
<b>Support services (continued)</b>		
Central		
Planning, research development and evaluation		
Salaries	\$ 32,711	\$ 32,123
Employee benefits	8,922	8,665
Contracted services	10,465	14,345
	<u>52,098</u>	<u>55,134</u>
Total planning, research development and evaluation		
	<u>52,098</u>	<u>55,134</u>
Data processing		
Salaries	25,597	25,959
Employee benefits	17,811	12,095
Purchased services	569	1,150
	<u>43,977</u>	<u>39,204</u>
Total data processing		
	<u>43,977</u>	<u>39,204</u>
Total central	<u>96,075</u>	<u>39,204</u>
	<u>96,075</u>	<u>39,204</u>
Total support services	<u>6,230,743</u>	<u>6,065,591</u>
	<u>6,230,743</u>	<u>6,065,591</u>
<b>Community services</b>		
Parent training		
Purchased services	429	423
	<u>429</u>	<u>423</u>
	<u>429</u>	<u>423</u>
<b>Outgoing transfers and other transactions</b>		
Payments to other districts		
Transportation	-	29,139
Special education programs	5,121,341	4,735,413
Trainable program	-	-
CBE program	-	-
Other	160,163	162,753
	<u>756,105</u>	<u>651,304</u>
Transfers to other funds		
	<u>756,105</u>	<u>651,304</u>
Total outgoing transfers and other transactions	<u>6,037,609</u>	<u>5,578,609</u>
	<u>6,037,609</u>	<u>5,578,609</u>
Total expenditures	<u>\$ 18,130,039</u>	<u>\$ 17,180,567</u>
	<u>\$ 18,130,039</u>	<u>\$ 17,180,567</u>

Gratiot-Isabella Regional Education Service District  
Cooperative Education Fund  
Statement of Revenues and Expenditures  
For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Revenues</b>		
Local sources	\$ 1,515,603	\$ 1,143,272
State sources	109,272	121,005
Federal sources	487,169	616,780
Total revenues	<u>2,112,044</u>	<u>1,881,058</u>
Other financing sources		
Transfers In	468,046	369,434
Other	<u>396,245</u>	<u>464,152</u>
Total revenues and other financing sources	<u>2,976,335</u>	<u>2,714,644</u>
<b>Expenditures</b>		
Instruction		
High School/Adult Occupational Training	<u>559,715</u>	<u>419,578</u>
Total instruction	<u>559,715</u>	<u>419,578</u>
Support services		
Instructional staff	1,399,305	1,382,524
Educational and media services	56,428	50,839
Operation and maintenance	317,658	359,333
Central	315,449	389,278
Planning, research, and development	-	135
Community recreation	<u>38,786</u>	<u>47,181</u>
Total support services	<u>2,127,626</u>	<u>2,229,291</u>
Outgoing transfers and other transactions	<u>152,522</u>	<u>74,619</u>
Total expenditures	<u><u>\$ 2,839,863</u></u>	<u><u>\$ 2,723,488</u></u>

Gratiot-Isabella Regional Education Service District  
 Funded Projects Fund  
 Statement Of Revenues and Expenditures  
 For the Years Ended June 30, 2008 and 2007

	2008	2007
<b>Revenues</b>		
Local sources	\$ 2,931	\$ 2,912
Federal sources	<u>6,692,602</u>	<u>7,413,729</u>
Total revenues	<u>6,695,533</u>	<u>7,416,641</u>
<b>Expenditures</b>		
Community services	6,453,425	6,987,568
Outgoing transfers and other transactions	<u>239,202</u>	<u>434,618</u>
Total expenditures	<u><u>\$ 6,692,627</u></u>	<u><u>\$ 7,422,186</u></u>

Gratiot-Isabella Regional Education Service District  
Capital Projects Fund  
Statement of Revenues and Expenditures  
For the Years Ended June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>Revenues</b>		
Local sources	\$ 7,401	\$ 501
Transfer in from other funds	<u>200,000</u>	<u>250,000</u>
Total revenues	<u>\$ 207,401</u>	<u>\$ 250,501</u>

Gratiot-Isabella Regional Education Service District  
Schedule of Long-Term Debt  
For the Year Ended June 30, 2008

For the Year Ended June 30, 2008					
Maturity Date	Interest Rate (%)	Annual Principal Due	Interest Due		
			November	May	Total
1997 Bond Issue - \$920,000					
Due May 1, 2008	5.40	\$ 150,000	\$ 4,050	\$ 4,050	\$ 158,100
Total 1997 Bonds		\$ 150,000	\$ 4,050	\$ 4,050	\$ 158,100

**School Improvement Bonds - \$235,067**

Due May 1, 2009	4.76	\$ 79,941	\$ -	\$ 30,969	\$ 110,910
2010	4.76	13,705	-	2,802	16,507
2011	4.76	14,357	-	2,150	16,507
2012	4.76	15,040	-	1,466	16,506
2013	4.76	15,756	-	750	16,506
Total Durant issue		<u>\$ 138,799</u>	<u>\$ -</u>	<u>\$ 38,137</u>	<u>\$ 176,936</u>

The State School Aid Act, as amended by Public Act 142 of 1997 provided appropriations as part of a settlement to school districts involved in the Durant litigation as well as schools not involved in the litigation. The Michigan Municipal Bond Authority (MMBA) issued bonds for those districts that elected to receive a lump sum amount from the MMBA rather than receive part of the settlement in fifteen annual payments.

**MMNet Loan - \$184,395**

Due May & Nov 15, 2009	12.50	\$ 14,229	\$ 2,267	\$ 2,068	\$ 18,564
2010	12.50	15,049	1,863	1,652	18,564
2011	12.50	15,916	1,436	1,213	18,564
2012	12.50	16,833	984	748	18,564
2013	12.50	17,803	506	256	18,564
		<u>\$ 79,829</u>	<u>\$ 7,055</u>	<u>\$ 5,937</u>	<u>\$ 92,821</u>

Gratiot-Isabella Regional Education Service District  
Schedule of Federal Awards Provided to Subrecipients  
For The Year Ended June 30, 2008

	Sub-recipient Award Amount	Current Year Expenditures	Current Year Payments
<u>DRUG FREE - CFDA #84.186</u>			
Ashley Community Schools	\$ 871	\$ 871	\$ 871
Fulton Public Schools	1,633	1,633	1,633
Breckenridge Community Schools	2,169	2,169	2,169
Beal City Schools	885	885	885
St. Louis Public Schools	2,803	2,803	2,803
Shepherd Public Schools	3,375	3,375	3,375
Ithaca Public Schools	2,198	2,198	2,198
Morey Charter Schools	601	601	601
Gladwin Community Schools	6,839	6,839	6,839
Harrison Public Schools	6,963	6,963	6,963
Renaissance School	500	500	500
Clare Public Schools	3,675	3,675	3,675
Totals	<u>\$ 32,512</u>	<u>\$ 32,512</u>	<u>\$ 32,512</u>
<u>EARLY ON - CFDA #84.181</u>			
Mid-Michigan District Health Department			
Central Michigan District Health Department	\$ 80,082	\$ 80,082	\$ 80,082
	80,081	80,081	80,081
Totals	<u>\$ 160,163</u>	<u>\$ 160,163</u>	<u>\$ 160,163</u>

**GRATIOT-ISABELLA RESD  
Ithaca, Michigan**

**Federal Awards  
(Supplementary Information  
to Financial Statements)  
*June 30, 2008***



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Gratiot-Isabella RESD  
Federal Awards  
(Supplementary Information to Financial Statements)  
June 30, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education  
Gratiot-Isabella RESD  
Ithaca, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gratiot-Isabella RESD (the District) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the District in a separate letter dated October 10, 2008.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." in a cursive script.

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
Gratiot-Isabella RESD  
Ithaca, Michigan

**Compliance**

We have audited the compliance of Gratiot-Isabella RESD (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for the Gratiot-Isabella RESD, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 10, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Gratiot-Isabella RESD's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008

Gratiot-Isabella Regional Education Service District  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 6/30/2007	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2008	Federal Revenue Recognized
<b>U.S. DEPARTMENT OF EDUCATION</b>								
<b>Passed Through The Michigan</b>								
<b>Department Of Education:</b>								
Improving Teacher Quality	84.367	070520/0607	\$ 712	\$ (712)	\$ 712	\$ -	\$ -	\$ -
Improving Teacher Quality	84.367	070520/0708	712	-	712	712	-	712
Total 84.367				(712)	1,424	712	-	712
Title V - LEA Allocation	84.298	070250/0607	414	(414)	414	-	-	
Title V - LEA Allocation	84.298	070250/0708	340	-	340	340	-	340
Total 84.298				(414)	754	340	-	340
<b>Handicapped Preschool &amp; School Prog.:</b>								
PL 94-142 Flow Through	(a) 84.027	080450/0708	3,090,242	-	3,090,242	3,090,242	-	3,090,242
PL 94-142 Flow Through	(a) 84.027	060450/0506	3,043,374	(439)	439	-	-	-
PL 94-142 Flow Through	(a) 84.027	070450/0607	3,054,820	(1,123,868)	1,123,868	-	-	-
Transition Services	(a) 84.027	080490/TS	60,000	-	50,093	55,769	(5,676)	55,769
Transition Services	(a) 84.027	070490/TS	70,000	(7,272)	7,272	-	-	-
State Initiated/Competitive	(a) 84.027	080480/EOSD	50,000	-	50,000	50,000	-	50,000
State Initiated/Competitive	(a) 84.027	070480/EOSD	50,000	(12,003)	12,003	-	-	-
Total 84.027				(1,143,582)	4,333,917	3,196,011	(5,676)	3,196,011
Preschool Grant	(a) 84.173	080460-0708	137,213		137,213	137,213	-	137,213
Preschool Grant	(a) 84.173	070460/0607	137,192	(48,532)	48,532		-	
Total 84.173				(48,532)	185,745	137,213	-	137,213
Infants And Toddlers	84.181	071340/190	163,434	(32,002)	32,002		-	
Infants And Toddlers	84.181	081340-190	162,091	-	155,361	162,091	(6,730)	162,091
Total 84.181				(32,002)	187,363	162,091	(6,730)	162,091
<b>Safe &amp; Drug Free Schools &amp; Communities:</b>								
Data Management Grant	84.184R	-	75,500	-	51,928	73,462	(21,534)	73,462
Readiness & Emergency Management for Schls.	84.184E	Q184E070194	336,064	-	74,736	91,294	(16,558)	91,294
Total 84.184				-	126,664	164,756	(38,092)	164,756
Drug Free Formula	84.186	072860/0607	96,691	(16,920)	19,062	2,142	-	2,142
Drug Free Formula	84.186	062860/0607	17,895	(9,489)	9,489	-	-	-
Drug Free Formula	84.186	082860/0708	96,636	-	74,906	76,158	(1,252)	76,158
Total 84.186				(26,409)	103,457	78,300	(1,252)	78,300
Title II Part D Educational Technology	84.367	064240/-1	243,491	(79,387)	79,387	-	-	-
<b>Total Passed Through State Department of Education</b>				<b>(1,331,038)</b>	<b>5,018,711</b>	<b>3,739,423</b>	<b>(51,749)</b>	<b>3,739,423</b>

See accompanying notes to schedule of expenditures of federal awards.

Gratiot-Isabella Regional Education Service District  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 6/30/2007	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 6/30/2008	Federal Revenue Recognized
<b>Passed Through Calhoun Intermediate School District:</b>								
Vocational Education	84.048	0335-209210	\$ 7,280	\$ -	\$ 7,280	\$ 7,280	\$ -	\$ 7,280
<b>Passed Through Central Montcalm Public School District:</b>								
Adult Education	84.002	NA	72,631	(26,879)	26,879	-	-	-
<b>Passed Through Michigan State University Extension:</b>								
Michigan Nutrition Network	10.561	NA	111,513	-	46,812	46,812	-	46,812
<b>Passed Through Central Michigan University:</b>								
Title II Partnership	84.367B	NA	11,400	(11,400)	11,400	-	-	-
<b>Total U.S. Department of Education</b>				<b>(1,369,317)</b>	<b>5,111,083</b>	<b>3,793,515</b>	<b>(51,749)</b>	<b>3,793,515</b>
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>								
<b>Passed Through The State Of Michigan</b>								
Department Of Community Mental Health:								
Medicaid Outreach	93.778	NA	188,969	-	188,969	188,969	-	188,969
<b>Total U.S. Department of Health And Human Services</b>				<b>-</b>	<b>188,969</b>	<b>188,969</b>	<b>-</b>	<b>188,969</b>
<b><u>U.S. DEPARTMENT OF LABOR</u></b>								
Passed Through Central Area Michigan Works Consortium:								
NAFTA	17.245	NA		(59,062)	2,846,562	2,816,236	(28,736)	2,816,236
WIA, Wagner Peyser	17.207	NA		(22,907)	233,056	261,141	(50,992)	261,141
WIA, Youth	(b) 17.259	NA		(95,639)	854,238	843,997	(85,398)	843,997
WIA, Dislocated Worker	(b) 17.260	NA		(234,341)	1,490,832	1,534,983	(278,492)	1,534,983
WIA, Adult	(b) 17.258	NA		(23,842)	950,286	1,118,632	(192,188)	1,118,632
WIA, Adult - Statewide Activities	(b) 17.258	NA		-	101,394	117,613	(16,219)	117,613
Total for 17.258				(23,842)	1,051,680	1,236,245	(208,407)	1,236,245
<b>Total U.S. Department Of Labor</b>				<b>(435,791)</b>	<b>6,476,368</b>	<b>6,692,602</b>	<b>(652,024)</b>	<b>6,692,602</b>
<b>TOTALS</b>				<b>\$ (1,805,108)</b>	<b>\$ 11,776,420</b>	<b>\$ 10,675,086</b>	<b>\$ (703,774)</b>	<b>\$ 10,675,086</b>

(a) indicates programs included under the special education cluster

(b) indicates programs included under the WIA cluster

Federal revenue recognized is reported on page 5 of the financial audit report.

Gratiot-Isabella RESD  
Notes to the Schedule of Expenditures of Federal Awards  
June 30, 2008

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**Note 1.**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Gratiot-Isabella RESD and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and reconciles with amounts presented in the financial statements.

**Note 2.**

The following programs represent 31.2% of federal program expenditures and were audited as major programs:

- CFDA #87.027 - Special Education (IDEA Part B)
- CFDA #84.173 - Special Education (IDEA Preschool)

**Note 3.**

The threshold for distinguishing Type A and B programs was \$300,000.

**Note 4.**

Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.

**Note 5.**

Management has utilized the Grant Section Auditors' Report (R7120) and the Grant Auditor Report (Cash Management System) in preparing the schedule of expenditures of federal awards.

**Note 6.**

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported in the financial statements.



Gratiot-Isabella RESD  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

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**SUMMARY OF AUDITOR'S RESULTS**

FINANCIAL STATEMENTS

Type of auditor's opinion issued:	Unqualified.
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No.
▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.

FEDERAL AWARDS

Internal control over major program:	
▪ Material weakness(es) identified?	No.
▪ Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported.
Type of auditor's report issued on compliance for major programs:	Unqualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No.
Dollar threshold used to distinguish between type A and type B programs:	\$300,000.
Auditee qualified as low-risk auditee?	Yes.
Identification of major programs:	
▪ CFDA #87.027 - Special Education (IDEA Part B)	
▪ CFDA #84.173 - Special Education (IDEA Preschool)	

**FINANCIAL STATEMENT FINDINGS**

None.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

Gratiot-Isabella RESD  
Status of Prior Year Findings  
Year Ended June 30, 2008

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There were no findings for the year ended June 30, 2007.



## MANAGEMENT LETTER

Gratiot-Isabella Regional Education Service District  
Ithaca, Michigan

In planning and performing our audit of the financial statements for Gratiot-Isabella Regional Education Service District for the fiscal year ended June 30, 2008, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following pages that accompany this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our audit report dated October 10, 2008 on the financial statements of Gratiot-Isabella Regional Education Service District.

We will review the status of these comments during our next audit engagement. We have discussed these comments and recommendations with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Gratiot-Isabella Regional Education Service District, management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Sincerely,

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

October 10, 2008

### **Status of Prior Year Comments and Recommendations**

We were please to see that management has implemented the recommendations we included in our previously issued Management Letter.

### **Current Year Comments and Recommendations**

#### **Uninsured Bank Deposits**

During recent months the financial market has seen significant fluctuations leading many to question the security and availability of bank deposits held in financial institutions. Although most banks insure deposits through the Federal Deposit Insurance Corporation (FDIC), there are limits to that coverage.

It is our understanding that the current limits for FDIC insured balances are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Governmental units may also request certain funds be collateralized by the bank. There are also other options regarding the investment of surplus funds including investment pools, treasury investments, and commercial paper.

We are not investment advisors. However, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review your investment policies to ensure it continues to satisfy the District's goals.

#### **Annual Salary and Wages Updates**

At the beginning of each fiscal year payroll information is updated in the payroll system based on approved salary and wage rates. However, this information is not reviewed by someone other than the payroll clerk after the system has been updated.

We recommend that management review its policies and procedures and make the necessary changes to ensure that all updates to the salary and wages rates be reviewed and approved by someone other than the person responsible for making the initial changes. These approvals should be documented with the initials and date of the reviewer.

#### **Adding and Removing Employees**

Currently the payroll clerk adds or removes employees upon receipt of written approval by a member of management. However, regular review of additions and deletions is not completed by someone other than the payroll clerk.

We recommend that management review its policies and procedures and make the necessary changes to ensure that all additions or terminations of employees in the payroll system be reviewed and approved by someone other than the person responsible for making these changes. These approvals should be documented with the initials and date of the reviewer.

Gratiot-Isabella Regional Education Service District  
Management Letter

### **Review Vendor Lists**

During our review of the vendor list we found numerous vendors that have been inactive for a long period of time. We recommend that management review its policies and procedures and make the necessary changes to ensure that all inactive vendors are removed from the list of available vendors.

We also recommend that management periodically review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. Such a review can detect possible fraud involving accounts payable.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities.

Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dun & Bradstreet), crisscross and telephone directories, secretary of state incorporation records, or local partnership and assumed name records.

### **Bank Statements and Reconciliations**

We recommend that a member of management, other than the preparer, review all completed bank reconciliations on a monthly basis. This review should include scanning the reconciling items for any unusual items and tracing the reconciled balance to the financial statements.

At the same time we also recommend that the reviewer open the bank statements and review them for any unusual transactions. The review of the bank statement will ensure that unusual items are investigated on a timely basis.

All reconciliations should be signed and dated by employees preparing them as well as by the reviewers. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

These procedures should be performed monthly and added to the accounting policies.